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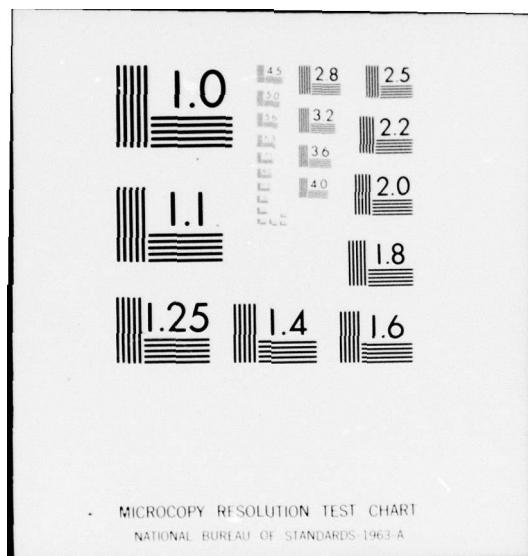
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THE SERRANO CASE: POLICY FOR EDUCATION OR FOR PUBLIC FINANCE

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John Pincus

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THE SERRANO CASE: POLICY FOR EDUCATION OR FOR PUBLIC FINANCE?

John Pincus *

I. INTRODUCTION: THE COURTS AND SCHOOL FINANCE

In the past decade there has been much research and discussion on the subject of inequities in American school finance.¹ Two different strands of argument have emerged--one about equal educational opportunity as defined by student need criteria, the other about differences in tax base per pupil among different school districts within a state.

These arguments were soon translated into court cases, aimed at demonstrating that existing public school finance systems, which spend some \$60 billion a year on the 44 million students in their charge, are unconstitutional. The first argument, which claimed equal educational opportunity was denied when differences in pupils' educational needs were ignored, did not fare well in court. The landmark case, *McInnis v. O'gilvie* was decided in 1968 by a federal court in Illinois and subsequently affirmed by the U.S. Supreme Court.² The plaintiff claimed that the state school finance systems were unconstitutional because school funds were not distributed on the basis of children's educational needs, and therefore denied them equal opportunity. The court held that the plaintiffs had shown no way to measure educational need, and therefore no basis for court action. More generally, there seems to be no

^{*} I would like to acknowledge the helpful comments of Professor John E. Coons, University of California at Berkeley, and Mr. John B. Mockler, California State Department of Education, on an earlier draft of this article. They bear no responsibility for remaining errors.

¹ Arthur Wise, *Rich Schools, Poor Schools*, University of Chicago Press, 1969; John E. Coons, William H. Clune, III, and Stephen D. Sugarman, *Private Wealth and Public Education*, Harvard University Press, Cambridge, Massachusetts, 1970; H. Horowitz, *Unseparate but Unequal--The Emerging Fourteenth Amendment Issue in Public Education*, 13 UCLA Law Review, 1147 (1966).

² *McInnis v. Shapiro*, 293 F. Supp. 327 (N.D. Ill., 1968); *McInnis v. O'gilvie*, 394 U.S. 322 (1969).

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judicial basis for holding that educationally disadvantaged children are constitutionally entitled to equal or greater resources than other children.

Nonetheless, these cases raised important issues, which the second strand of argument attempted to resolve. Its argument was that current school finance systems violate the Fourteenth Amendment's equal protection clause. Schools generally raise most of their money through local taxes on property wealth. Therefore the quality of a schoolchild's education, as measured by dollars spent, depends on his school district's wealth, not on that of the state as a whole. At any given school tax rate, and for any given number of students, a property-rich district raises more money than one that is property-poor. Coons, Clune, and Sugarman in their 1970 volume, argued that school finance systems should be fiscally neutral, and should reflect only the wealth of the state as a whole, not that of individual districts.¹ This argument was therefore different from that of the *McInnis* case. It in effect defined "equal opportunity" as the opportunity for each district to make its spending decisions on the basis of equal per pupil revenue for equal property tax rates. Whether those revenues increased or decreased, the correlation between spending and educational need was not at issue, although the proponents clearly believed that the effect would be to equalize.

In the California case, *Serrano v. Priest* (1971), the state Supreme Court accepted the fiscal neutrality theory, saying that the California school finance system was unconstitutional on equal protection grounds under both federal and state constitutions, in part because of invidious discrimination against the poor child, the quality of whose education, like that of the rich, was a function of the wealth of his parents and neighbors. The case was then remanded for trial on the facts (heard in 1973), with a decision rendered in favor of the plaintiff (1974) ordering statewide equalization of school district claims on wealth per student by 1980. The trial court judgment was heard on appeal by the state Supreme Court (June 1976), and a final decision affirming the trial court was announced in December 1976.

The 1973 trial included a lengthy airing of the relationship

¹ *Op. cit.*

between school finance equalization and equal educational opportunity as measured by improvement in standardized test scores. The plaintiffs argued that irrespective of the apparent ambiguity of research results relating spending to achievement, they were entitled to more spending in their districts, because only that way could they have an opportunity to benefit from public education--better results could not be guaranteed by anyone.

It seems to have been assumed in the trials that rich children predominated in rich districts and poor children in poor districts. The standard examples used were high-wealth, low-tax districts inhabited by the wealthy, like Palo Alto or Beverly Hills, and high-tax, low-wealth districts inhabited by poor people, like Lucia Mar or Compton. But these were all small towns. In the big cities, the situation was otherwise. San Francisco and Oakland were property-rich but had many poor children. San Diego was property-poor, but was mostly middle-class.

It has been estimated that the net effect of the 1974 *Serrano* decision, if the then existing state-local school finance pool of \$5.3 billion were to be redistributed equally, would be no net increase in the funds going to poor children. Of course, the argument for equal claims on wealth per student is easily defensible no matter what its effects are on income distribution or educational achievement. But it is of historical interest that the "fiscal neutrality" doctrine was originally seen in part as another approach to the *McInnis* issue, which had to do with disadvantaged *students*. It has instead developed into something entirely distinct, although not necessarily less important thereby--equality for poor *districts*.

The U.S. Supreme Court, in narrowly rejecting a similar case, *San Antonio Independent School District v. Rodriguez* (1973)¹, in effect made this point, by stating that there was no evidence that the poorest people were concentrated in the poorest districts, and therefore poverty could not be adduced as grounds that the system operated to the peculiar disadvantage of some "suspect class" of people.

The California courts, since 1971 at least, have seen the matter differently. Even after the *Rodriguez* decision deprived state courts

¹ 36 L.Ed 2d 16, 93 S.Ct. 1278 (1973).

of Fourteenth Amendment grounds for disapproving the present California school finance system, they have continued to rely on the equal protection clause of the state constitution. In other states (Washington, Ohio, New York) similar cases are pending, and in many states (Florida, Kansas, New Mexico, Maine, Michigan) reform laws are now on the books.

*(Concerned with shape are
Serrano v. Priest Serrano type)* The policy question that these legal debates reflect and also shape are: What are the effects of school finance equalization of the *Serrano* type? This paper concentrates on *Serrano* and California, but the issues are quite general. The Ford Foundation and other organizations have been supporting work nationwide that promotes school finance equalization. What will it mean for spending, schooling, and taxes?

This paper considers the implications

II. THE CALIFORNIA SCHOOL FINANCE SYSTEM

The implications of a change to fiscal neutrality or other forms of school finance equalization must be understood in light of California's present school finance system. That system has evolved over many years, but was subject to major change in 1973, as a result of the passage of Senate Bill 90, which was itself partly a response to the 1971 *Serrano* decision.

California has 4.4 million public school students, and in 1975-76 about \$6.6 billion was spent on them, 93 percent of it from state and local sources, the remainder from federal funds. About three-fifths of the state-local money is raised locally through property taxes, the other two-fifths coming from state funds, as raised by general appropriation. In 1972, the state share was down to slightly more than one-third, which was a source of local political resentment that helped to ensure passage of SB 90.

The state's 1042 school districts are of three kinds: elementary (kindergarten through 8th grade); high school (grades 9-12); and unified (kindergarten through 12th grade). Only 213 of the districts are unified, but they account for nearly two-thirds of the students. All large cities are unified districts.

Constitutionally, the entire system is a state responsibility. In practice, elected local school boards and school administrators operate the system. A state code of education defines the operating framework for school districts, sometimes in great detail. The State Board of Education and the Superintendent of Public Instruction maintain some general supervision through regulations and, increasingly in recent years, through control over state and federal categorical aid for disadvantaged, handicapped and gifted children, as well as for general curriculum reform.

There is great variation in many districts in spending per pupil. For example, in 1974-75, the lowest spending elementary district in the state spent \$620 per student, and the wealthiest spent \$5174. For unified districts, the range was from \$1000 to more than \$3,000.

But this variation is less striking than it appears. Districts that spend a great deal or very little are generally small. The great majority of unified districts spent between \$1150 and \$1450 per student in 1975-76, with comparable \$300 spending ranges accounting for most elementary and high school districts.

This clustering of spending, despite the presence of extremes, is in large part explained by the operation of the school finance system as modified by SB 90. The system consists of:

- o *A revenue limit*, which is in effect the amount of money the district spent per student* in 1972-73, plus an annual increment for inflation, which varies inversely according to the district's level of spending. A district cannot maintain a property tax level that, after subtracting state aid, would produce revenues in excess of the revenue limit. Because rich districts have smaller inflation allowance than poor ones, the revenue limit system tends to equalize spending, although slowly.
- o *Basic aid*, provided by the state and guaranteed by the constitution, in the amount of \$120 per student. This tends to dis-equalize spending, because it is really a subsidy to high-wealth districts.
- o *District aid*, which is simply the proceeds of the local property tax, and is not aid in the usual sense of the word.
- o *A foundation program*, which is a state guarantee of a minimum amount per student to each district (in 1976-77, these levels are about \$1000 for K-8th grades and \$1200 for 9-12th grades). The foundation program defines a floor on school spending that rises annually through the operation of the inflation allowance.
- o *Categorical aid*, provided by state or local government for special classes of students or special programs. Categorical aid is excluded from computation of the foundation program and the revenue limit.

*Actually, per unit of average daily attendance (ADA), rather than per enrolled student.

- o *Tax elections*, through which by majority vote, local voters may approve school board proposals for school tax rates in excess of the revenue limit.
- o *Property tax relief*, through state subsidy.

The net effect of this system, coupled with voter reluctance to approve higher property taxes, has been to raise the spending of low-wealth districts, and curtail the growth of high-wealth districts' spending. Consequently, by 1981-82, under the present law, seven-eighths of each category of district--elementary, high school, unified--will be spending within a \$200 range per pupil, providing voters continue to refuse to approve tax elections. Voter reluctance is further stimulated by amendments to SB 90, which took effect January 1, 1977, requiring the richest districts (those that spend 50 percent more per pupil than the foundation program level) to turn back part of the proceeds of any successful tax election to the state for redistribution. This provision will presumably accelerate the equalizing effects of SB 90 by discouraging rich districts from passing tax elections.

SB 90 had the initial effect of raising the state's share of public school costs. But the operation of the system tends to reduce the state share. As more and more districts go above the assessed values necessary to finance the foundation program, state aid drops to the basic aid level, \$125 per student, plus any categorical aid entitlements. From the school districts' viewpoint, SB 90 includes another source of frustration. The SB 90 inflation allowance amounts to about 6 percent of the foundation program (about \$60-\$70 a year), and any spending above the foundation program is not subject to the inflation allowance, so that the \$60-\$70 allowance may represent only a 3 percent increase for high-spending districts. Meanwhile, local property assessments are rising by much more than 6 or 7 percent annually, but the school districts cannot use these additional revenue sources. Instead, SB 90 provides for property tax rate reductions when assessment growth outpaces revenue limit growth.

In other words, SB 90 is both a property tax relief measure and a school finance equalization reform. In both respects, it has been

moderately successful. It has increased the homeowner's property tax exemption and restrained the growth of school property taxes. But it has also increased state costs for schooling, directly through the operations of the SB 90 foundation program and inflation allowance, and indirectly through reimbursing local government for consumers' property tax exemption. Furthermore, the increase in state categorical aid for disadvantaged youth, early childhood, handicapped youth, etc., is probably in part attributable to SB 90, representing alternative sources of funds in light of SB 90 spending restrictions. Finally, SB 90 does little to reduce existing tax rate disparities among school districts. Therefore, from the taxpayers' viewpoint, SB 90 involves a certain amount of robbery of Peter to pay Paul, and makes little effort to equalize the rate at which Peter and Paul are robbed.

From the school finance reform viewpoint, increasing the foundation program and limiting the rate at which high-spending districts can raise additional funds, represent large strides toward equality. These strides are costly (for example, every time the foundation program is raised by \$60 per student, state and local tax costs rise by \$264 million), and they do little to reduce extreme differences in spending. For example, even though about 85 percent of all districts may be spending within a \$200-per-pupil range by 1981-82, there will still be some districts that spend \$500 or more per pupil above the median in that year.

Nonetheless, on the revenue and spending side, SB 90 makes substantial progress toward revenue equalization, an important aspect of *Serrano*. It is on the tax side that major difficulties are likely to arise under the 1976 reaffirmation of *Serrano*, which gives the state Legislature less than four years to equalize spending opportunities among districts. On the revenue side, the decision does not allow the decade or more that SB 90 would require to achieve virtual equalization.

III. PROSPECTS AND PROBLEMS UNDER SERRANO

A. Spending and Taxing Under Serrano

School finance reform was viewed as an educational reform by many of its original proponents. *Serrano* and other cases were advanced after the educational need doctrine failed to pass constitutional muster.

Serrano did not necessarily mean that poor children lived in property-poor areas, where too little tax money could be raised to provide a good education, although it was usually so interpreted. The *Serrano* argument aimed at giving each district equal opportunity for access to the state's property wealth. If a district wanted an expensive education for its children, it could tax itself high and be guaranteed substantial revenue per student. If it taxed itself at the state average rate, its students would be educated at state average cost; and so on. The result would be greater equity among rich and poor districts.

This assumed that more spending was associated with better schooling and, in the eyes of many, that low-wealth districts were largely populated by poor people, or at least more so than high-wealth districts.

Serrano also implicitly assumed that an increase in total spending for education statewide was desirable. If equalization took the form of parcelling the present level of spending equally among all students, some high-spending districts would face a sharp drop in the level of educational spending. This is presumably politically unworkable, although I believe it to be the soundest solution on other grounds. The more likely policy is to increase the foundation level or offer a state-guaranteed tax yield, thereby raising lower-spending districts' revenues, without significantly reducing those of rich districts. The result is to increase the share of state product going to public education above what it would otherwise have been.

These assumptions are questionable. In California, as noted above, transferring money from rich districts to poor ones would simply change the incidence of financial gains and losses among the state's "pool" of

poor students--the total numbers on each side would approximately offset each other.

The tax equity question is more complicated. At one level there is an unambiguous argument in favor of equalizing statewide, or nationwide if it were constitutionally possible, the revenue garnered per unit tax. This is one intellectual foundation of *Serrano* that seems to be relatively strong. The other side of the coin, however, is that the incidence of such a new, equalized tax schedule may itself be no more progressive, or even less progressive, than the existing system. It is a question of who lives in poor districts and who lives in rich ones. Underlying that difficulty is the fact that *Serrano* would equalize school spending and tax burdens among political subdivisions, not among people; therefore judgments about fiscal costs and benefits are hard to arrive at. Of course, if spending increases were financed through state income tax, the incidence would be progressive among taxpayers.

Despite these issues, the case for *Serrano* as an equalizing device for both spending and taxing remains strong, even though the case for it as a contributor to progressive educational taxation or to better schooling for the disadvantaged, or indeed for any class of students, is questionable.

Some of the consequences of the court's 1976 decision are clear from the foregoing discussion. Specifically rejecting the SB 90 standard of equalization, the state Supreme Court has followed the lower court in seeking complete equalization of access to funds by 1980. This is likely to lead to major skirmishing between the Legislature and the courts. Equalized opportunities can be achieved in various ways; but they are all unpalatable politically. I have pointed out above the political barrier to simply redistributing the existing pool of funds, although something close to that might be a sensible point of departure for negotiations by a governor committed to no increases in taxation. A second alternative would be to raise all districts to the spending level of rich districts (say \$2000 per student). This would cost about \$3.5 billion a year, and would require a doubling of school taxes statewide, or a 50 percent increase in income taxes, or a four- or five-cent increase in the sales tax, and so on.

A third alternative would be to redefine school district boundaries

for tax purposes, either on a county basis so that all operated from the same revenue base, or on a statewide basis through a guaranteed tax yield system or a statewide property tax. The county tax base system would be somewhat equalizing statewide, but probably not enough for the *Serrano* standard. The statewide systems could easily meet *Serrano* but run into a cost barrier, unless something is done to reduce rich districts' spending level.

Therefore, it seems unlikely that the Legislature will meet the *Serrano* criterion of equal spending by the 1980 scheduled date, although some acceleration of current progress under SB 90 is certainly politically feasible.

In regard to equalizing tax burdens among districts, the chances for legislative-judicial harmony by 1980 are even slighter unless the property tax reform movement leads to a massive shift away from financing public schools through the property tax. However, it is not easy to think of acceptable shifts on the scale of several billion dollars annually, without resort to the federal income tax base.

Furthermore, while SB 90 has offered significant progress on the revenue side, it has done much less to reduce tax rate disparities. For example, in 1975-76 in Los Angeles County, El Segundo raised more money per pupil with a \$2.13 tax rate than Claremont and Las Virgenes did with \$5.85 tax rates.

In the 1976 decision, the state Supreme Court declared such tax differences to be intolerable, saying:

So long as the assessed valuation within a district's boundaries is a major determinant of how much it can spend for its schools, only a district with a large tax base will be truly able to decide how much it really cares about education.

The poor district cannot freely choose to tax itself into an excellence which its tax rolls cannot provide.

This statement is not strictly accurate. A district can tax itself at any rate it chooses depending on the sacrifices it is willing to make; it is automatically guaranteed the foundation level of support no matter how small its tax base; and if the tax base is extended statewide, then about half the districts would gain, and half would lose from the reform,

so there might be a balance of gains and losses. Despite these objections, the egalitarian argument is strong, even when applied to jurisdictions. This was recognized in the earlier legislation to some extent.

In a certain sense, SB 90 can be considered in large part as a general tax relief measure (much of the original funding of SB 90 went to property tax relief), sweetened by the special reduction for high-tax poor districts. But the other side of the coin has yet to be turned up. Most people favor property tax reduction, but San Francisco, Pasadena, and Palo Alto are not likely to welcome property tax increases as a condition of maintaining their present levels of school spending, or lower ones. Now that the court has called for equalized spending or equal tax revenues per unit tax rate, this is the implication, unless there is a shift in tax sources. It is hard to see therefore how the Legislature could follow such a court ruling in any short period. Nor can rich districts accept any such change without a hard fight because any new tax system would systematically lower their property values. The current price of land and buildings in Beverly Hills or Santa Monica incorporates the advantages of low tax rates.

But if the Legislature accepts rich districts' reluctance to pay higher property taxes, then some other change in taxation would be needed. It seems unlikely that an acceptable combination of sales and income taxes could be relied on, unless the court requires only a modest degree of tax equalization.

This is not to say that further progress in equalizing tax rates is impossible. A case in point may be Governor Brown's recent suggestion of tying property tax reductions to individual taxpayers' property tax burdens, measured as a fraction of taxpayers' income--a so-called circuit-breaker, which for certain classes of taxpayers separates spending from tax rates. The scale that he proposed is inadequate in light of citizens' desires for the red meat of large-scale tax reduction but this, of course, is the dilemma. A little free lunch is cheap to provide, but banquets run high. Nor would it apply to the spending requirements of *Serrano* which makes the district, not the individual,

the unit of consideration. The governor has also suggested a constitutional amendment which would allow taxing residential property at lower rates than commercial and industrial real estate, in order to provide long-desired tax relief to residential property.

It seems likely that the results of *Serrano* will not include any large short-run increases in rich districts' taxes or any reduction in their current spending levels. This probably points to a gradual reform, using some combination of general state tax sources for subsidy, while keeping rich districts' tax levels stable as other districts' rates are allowed to decline. The decline could perhaps be subsidized by the "excess" revenues generated by the failure of rich districts' tax rates to decline. Recall that under SB 90, if assessments rise faster than the inflation allowance, the current tax rate generates more money than the revenue limit. Under current law, this "excess" money is never generated; instead taxes are reduced. If not reduced, the proceeds could be transferred to the state school fund for redistribution.

In short, revenue equalization is slow, but California has already started along that road. Tax equalization is slow too, and there California's progress is more modest, so the fulfillment of any equalizing order is remote. Nevertheless, under the most likely assumptions, *Serrano* should result in long-run progress toward equalizing spending and paying opportunities by school district, if not by class of student or taxpayer.

If the state Supreme Court finds such a rate of progress unacceptable, it could take the matter under its control, for example, by emulating the New Jersey Supreme Court and closing down the public schools pending an acceptable method of financing. From the viewpoint of the Legislature, such an outcome offers certain advantages by putting the onus of higher taxes on the back of an "authoritarian" court.

Of course, the opposition to higher taxes may be so strong that opponents of *Serrano* could turn successfully to a constitutional amendment nullifying the decision, or at least to the threat of one for political advantage. In any event, a good deal of testing of the political winds will take place from 1977 to 1980.

For example, Governor Brown has proposed an alternative which would eliminate basic aid to rich districts, reduce poor districts' tax rates, and guarantee all districts an equal yield per dollar of tax rate. The result would be to eliminate much but not all of existing tax yield disparities, without much increase in state spending. This sensible remedy suffers from a possibly fatal defect--it is apparently inconsistent with the *Serrano* decision, because it does not fully equalize access. The result will be determined by negotiation with the Legislature and more court tests, which will ultimately revolve around who pays and how much each party gains or loses.

B. Educational Reform Under *SERRANO*

Proponents of *Serrano* claim that the result will not be to guarantee anyone a better education, but to give each district equal access to the resources that are needed in order to permit it to try to improve schooling.

But there is more to it than that. *Serrano*, for reasons discussed above, can probably not be implemented unless the total amount of school funding increases above the level it would otherwise have been. Unless most districts benefit, the Legislature will be unable to speed up the pace of equalization. This leads us at last to an educational question, one that was largely irrelevant in considering the pure case of equalization.

Should the state, in the name of equity, provide public schools with more money than they would otherwise get? It seems likely that California voters on statewide referendums would decline to approve more funds for equalization. They have recently been reluctant indeed to approve school tax elections for local purposes, and have turned down statewide bond issues wholesale. What then would be a convincing rationale for raising the total level of school spending? Equalization *per se* has no appeal, except for state courts, eggheads, and the poor districts, unless of course the state were willing to raise the equalization rate (with regard to both taxing and spending) by enough to benefit all but the richest districts. In that case, as pointed out above, the bill would run high, and there seems to be no feasible tax source to pay it, unless the process were stretched out over many years.

If much more money for equalization offers lackluster political perspectives, where does a rationale emerge? The problem now is complex. *Serrano* started out partly as reform for the educationally needy, translated itself into equity in spending and taxing among school districts, which is unlikely to prove a convincing rationale for large increases in spending. Yet without such increases the equity goal will recede. Can we then turn to educational justifications for greater spending? This is different from the original *McInnis* rationale. The argument now would be that most children, not just needy ones, benefit from more school spending, and by enough to merit the diversion of funds from private uses or other public uses.

The evidence on this score is quite unclear. First, statistical analysis of the relation between spending and educational outcomes runs into several barriers. The usual measures of educational outcome used in such analyses are standardized test score results, high school graduation, and college attendance. All of these measures have their defects, because they provide limited information about what people learn in school.

Second, the statistical analysis tends to be dominated by acquired and inherited family effects--social class, wealth, and IQ of the student. Therefore, only about one-twentieth of the variation in measured outcomes is attributable to differences in school resources. But this figure may be misleading, because none of the statistical studies have included any measure of school or school district commitment to educational improvement.¹ Thus, when as in California after passage of SB 90, school districts have more money to spend, the educational results are variable. The analysis therefore tends to average together the results of districts that use the money for effective change and those that do not. In statistical terms, the problem is one of defining a variable that describes school and district management styles for implementing

¹ See H. A. Averch, et al., *How Effective is Schooling?*, Educational Technology Press, Englewood Cliffs, N.J., 1974; and John Heim and Lewis Perl, *The Educational Production Function: Indicators for Manpower Policy*, Institute of Public Employment, Cornell University, July 1974.

change.¹ Such a variable would allow us to separate the effect of effective districts from those of ineffective ones. Lacking such data, though, we can make some casual observations to illustrate the above point. For example, San Diego spends about \$1250 per student, while Los Angeles spends \$1350 and San Francisco spends \$2000 per student. San Diego students tend to score considerably higher in standardized tests than those in the other two cities. Los Angeles and San Francisco have more poor students than San Diego but, in test scores, Los Angeles students do about as well as those from San Francisco, despite more administrators per teacher, smaller class sizes and better teacher fringe benefits in San Francisco. This does not prove that San Francisco uses money less productively than the other districts, but it does indicate that money per se is not the answer, at least by the test score criterion. A general increase in resources for education would result in better education for some places and the same or worse for others.

It is often claimed that the result would be merely to raise teacher salaries, particularly in an era of increasing teacher unionism. However, some evidence indicates that this is not what happens, at least in the short run.² Most of the money goes for hiring teachers, administrators, and supplies. One-eighth to one-fourth of the funds remain for salary increases. In other words, large increases in funding lead directly to use of more resources in school districts, not simply to higher prices for the same resources.

This brings us back to the same problem--should the public fund general increases in school resource use, when it is likely that many of the additional resources will have no effects on measured outcomes?

In my opinion, the ideal application of *Serrano* would be one which imposed *ex ante* no extra costs on society, but simply leveled spending at a specified tax rate, allowing districts to go above or below the

¹ See Paul Berman and Milbrey W. McLaughlin, *Federal Programs Supporting Educational Change, Vol. IV, The Findings in Review*, R-1589/4-HEW, The Rand Corporation, Santa Monica, California, April 1975.

² S. M. Barro and S. J. Carroll, *Budget Allocation by School Districts: An Analysis of Spending for Teachers and Other Resources*, R-1797-NIE, The Rand Corporation, Santa Monica, California, December 1975.

combined ceiling/floor if they chose by raising or lowering taxes, on the basis of popular vote, from a statewide property tax base. Governor Brown has proposed such a "guaranteed yield" system of tax revenues, as part of his *Serrano* reform proposal.

Unfortunately, the pressures to sweeten the pot are likely to be overwhelming and the social gains stemming from inter-district equity are likely to be offset by the costs of higher school spending with predictably doubtful results for educational outcomes. We are in an era when service trades such as government, finance, catering, and the like are taking up relatively more of the national product, often with little apparent accompanying increase in productivity. In the case of education, which is such an expensive public function anyway, it seems a pity to reinforce this trend by disbursing billions in the sole justification of an equity which could in principle be purchased at no net cost.

Let us assume that at low cost or high, the result of *Serrano* is that California school districts come closer to equalizing their spending per unit tax rate. What will be the result for the quality of schooling? As noted above, the evidence to date is that the districts whose spending goes up hire more teachers, administrators, and aides, buy more equipment, improve the quality of maintenance, and increase salaries modestly. Other research cited here indicates that the effects of such changes on student outcome are uncertain, and are usually modest, whether positive or negative.

As has often been pointed out, the inconsistent results probably indicate that some districts make more effective use of resources than others do. Why is that so, and is there any way to hitch *Serrano* to encouraging greater effectiveness in resource use?

Most school districts, according to research conducted by two Rand staff members, Paul Berman and Milbrey McLaughlin, act to maintain the existing political and institutional equilibrium. School districts are hard to run smoothly, from a superintendent's viewpoint, because there are many competing interests to reconcile--school board members, teacher organizations, parents, various ethnic groups, lobbying groups that favor changes in curriculum, in discipline and the like, principals and

other administrators, students, nonprofessional staff. Therefore the objective of maintenance, keeping the system running, and suppressing "outside" interference from as many sources as possible, becomes paramount.

There is nothing wrong as such with maintaining the status quo. But it does tend to conflict with introducing any substantial change into the bureaucratic-political system, because change is painful, creating resistance and strife, and requiring a good deal of work in order to succeed. Nonetheless, the demand for change is also a fact of life. Therefore the maintenance district introduces changes, but these changes are normally not of the kind that will actually alter the way the system operates. Cases in point are innovative projects that arrange regular trips to the zoo, or Title I projects for the disadvantaged that reduce class size without changing curriculum. The more difficult kinds of projects, those that simultaneously reform curriculum and teacher relationships with other teachers, administrators, and students, are often adopted but rarely implemented in the maintenance district, because they would require a degree of central support for change that simply is not there.

For districts like these, which constitute the great majority, the only educational advantage of more funds would be in the case where a district has too little money to provide a minimum staff and physical plant--say average class sizes of not more than 35 students, and adequate light, heat, sanitation, ventilation, and minimum square footage of space per student. Once these minimums are met, the maintenance district is unlikely to be able to do much to improve student outcomes. To the extent that some students--disadvantaged, handicapped, bilingual--may need extra resources, categorical aid from Sacramento or Washington can come into play.

Therefore, for the maintenance district, increased spending from *Serrano* is not likely to be a particularly good use of public funds and the property-poor maintenance district is most likely to gain as a consequence of the associated tax benefits for its citizens. If the citizens are aware of this, of course, they can further reduce their liability by voting for low taxes, if the post-*Serrano* system allows that alternative.

Other districts operate differently, in a developmental mode. Such districts offer strong central support for change and encourage principals and teachers to propose new approaches. Changes are not normally adopted in such districts unless there is an intention to implement them, which normally includes substantial teacher participation in both planning and implementation. Changes adopted are normally of a magnitude that makes it hard for the adopting schools to revert easily to old ways of doing things. The innovation process itself is often routinized by assignment of functions in the central office that supports innovation.

The developing district therefore has the ability to use new funds systematically for educational improvement, at least within reasonable limits. To the extent that additional spending from *Serrano* goes to these districts, it is money better spent.

But the difficulty is obvious as cited above. Even if *Serrano* funds could be tied to performance, which seems to be clearly not the case, the districts that now provide a good education would by and large benefit, while those that do not would suffer financially. Such a result would be unacceptable politically, and would appear to consign the weaker districts to perpetual mediocrity. This is why I have suggested above a system that would tie funding increases to certain standards of planning and implementation.

This leads to the conclusion that it would be unwise, in the name of educational betterment, to use *Serrano* as a device for more educational spending, because most of the no-strings aid would be wasted, in terms of educational goals.

The alternative of tying increases in aid to the quality of district performance, using *Serrano* as a foundation plan, is more complicated. California's Early Childhood Education (ECE) program and the proposed legislation for high school reform (RISE) both include elements of this. ECE districts receive money for expanding the program to new schools only if the district's schools already in the program perform well. Each school in the program receives only about \$140 per student but must present the state with a plan covering use of the school's entire resources. Progress is reviewed annually by the state.

It would be possible to condition increases in state aid on such measures of progress as parent and student satisfaction, higher test scores, more job placement, increase in college attendance, and other indices. There are three obvious disadvantages to any system based on educational performance: (1) inconsistency with *Serrano*; (2) reluctance of districts to accept this or any form of accountability; (3) penalties inflicted on effective schools in an effective district.

The method might be less at odds with *Serrano* if these payments were to be made *in addition to* foundation-level *Serrano* payments, as a form of categorical aid. The politics of the situation is hard to estimate. Would there be widespread support for a system of payments tied to performance in the manner of ECE or RISE? Finally, what about penalizing the effective school in the ineffective district?

Michael Kirst and I have often suggested that California decentralize a good deal of its educational decisionmaking from the school district to the school and its parent community. If this were done, then the system of rewards and penalties could be addressed to the school level, partly bypassing the district. Even then the problem persists for the individual teacher or student. Ultimately, as in the case of *Serrano*, any reward-penalty system that aggregates above the individual level is sure to allow of possible inequities.

A further objection is that no system of outcome or activity measures can fairly define appropriate rewards and penalties, because the measures are inexact. Nor is any such system immune from manipulation. If large sums are at stake, institutions can always find ways to score points. The competition can threaten to become one of ingenuity rather than performance.

Finally, it is argued that such accountability systems penalize schoolchildren rather than the poor performance of those who serve them. However, under *Serrano*, it is possible to assure each child a level of support close to the statewide average. (Assembly Bill 65, submitted in December 1976 by the Chairman of the Assembly Education Committee, provides just such a floor.) Then the funds denied to his district would presumably not harm him, because his district has not demonstrated its ability to produce results.

This approach would have to be tied to a school-by-school plan and school-by-school results, in the manner of ECE or RISE. It would therefore require additional state supervision, and would lead to greater conflict between the state Department of Education and the schools.

In sum, if increased funding is not tied to performance, a good deal of it will be wasted. If it is so tied, the weaker performers are likely to change the rules of the game. Meanwhile the voters show no interest in providing more money for schools, so we are back to the intellectuals and the losers, perhaps not too formidable a power coalition.

From all of this, I would predict that the lesson of *Serrano* will be the lesson of social policy in general--government can allocate resources, but it cannot specify results. Federal farm programs were designed to preserve the family farm, and actually encouraged its decline. *Serrano* and its predecessors were aimed at promoting better education for needy districts and are likely to equalize spending with no systematic effects on educational outcomes. It also presents the danger of increased school spending paid for by reduced private income, and less public spending on public transportation, police, conservation, and the like.

This is not to say that any of these policies, including *Serrano*, were preferable to inaction. The difficulty with all of them is that policymakers understand rather little about how society and its institutions work. Coons may well have been correct in suggesting that the real significance of *Serrano* lies in giving districts a better chance to try their hand at providing good education. Since this is likely to lead to substantially higher spending, and there is no persuasive evidence about the results of such increases, we are left with a familiar policy dilemma. It is likely to be solved by compromise--spending less money than the courts in effect demand and more than the system would otherwise have tolerated, with unknown results for the quality of schooling and the public welfare.

This is the general approach taken by Governor Brown in his December 1976 proposal for *Serrano* reform. The proposal would speed up the pace

of school finance equalization as compared with SB 90, provide partial tax equalization through a "guaranteed yield," and incorporate certain existing and new educational reform policies. However, there would still be substantial disparities in taxing and spending for the very poor and very rich districts. The net effect would be an increase of about \$1 billion annually in state aid by 1982, as compared with SB 90. Roughly speaking, this amounts to going about one-third of the distance toward the complete equalization standard laid down by the state Supreme Court.

But if total state spending on education under *Serrano* did not increase above SB 90 levels, then, as suggested above, increments in funding available from the growth of state revenues could be devoted to programs aimed at improving school district quality in the style of ECE and RISE, or for the needs of special populations--the handicapped, slow learners, gifted, and so on--with payment linked to performance as discussed above. If *Serrano* ends up benefiting a large majority of school districts, then there will be little money left for targeted educational improvement. In that case, reform would be the enemy of progress. Governor Brown's proposal attempts to bridge that gap by offering a little of each.

The secret of educational improvement, if there is one, lies in two directions. One is more reverence and desire for teaching and learning by all of us and by all our institutions. Since this is unlikely, at least en masse, the second direction may be more practical: providing funds for schools, districts, and programs that do help children to learn better, while allowing the others a decent stipend. This is the approach to school finance that I discussed above, and the obstacles are formidable. But I do not want to leave the impression that any general school finance reform is likely to produce much more than pre-existing methods, in the way of better educated children. The *Serrano* solution that best reforms education is likely to be the solution that costs society least.